

CANADIAN INDUSTRIES LIMITED



ANNUAL REPORT
1944

PURVIS HALL
LIBRARIES

MAR 22

McGILL UNIVERSITY

CANADIAN INDUSTRIES LIMITED

MONTREAL

Board of Directors

HON. C. C. BALLANTYNE

E. J. BARNLEY

WINTHROP BRAINERD

J. THOMPSON BROWN

JASPER E. CRANE

GEORGE W. HUGGETT

THE RT. HON. LORD MCGOWAN,
K.B.E., D.C.L., LL.D.

ROSS H. McMASTER

SIR JOHN G. NICHOLSON

H. GREVILLE SMITH, C.B.E.

GEORGE W. SPINNEY, C.M.G.

WENDELL R. SWINT

Officers

GEORGE W. HUGGETT, President and Managing Director

H. GREVILLE SMITH, C.B.E., First Vice-President

ROBERT W. SHARWOOD, Vice-President and Treasurer

HERBERT H. LANK, Vice-President

RUSSELL SMITH, Secretary

R. C. DOUGHERTY, Assistant Treasurer

B. M. OGILVIE, Assistant Secretary

★ ★ ★

Transfer Agent, Registrar and Dividend Disbursing Agent
NATIONAL TRUST COMPANY, LIMITED, MONTREAL

CONTENTS

	Page
THE YEAR IN BRIEF	3
OPERATING REVIEW	3
THE COMPANY'S ROLE IN WAR AND PEACE	6
DEFENCE INDUSTRIES LIMITED	9
SUBSIDIARY AND MANAGED COMPANIES	10
EMPLOYEE RELATIONS	12
FINANCIAL REVIEW	16
THE FUTURE	19
FINANCIAL STATEMENTS	21

ANNUAL REPORT

THE DIRECTORS have pleasure in submitting herewith the Annual Report of Canadian Industries Limited for the year 1944.

The changes experienced by the Company in its operations during 1944, important as they might have appeared under normal conditions, were less far-reaching than in any previous war year. Sales were 5% above the level of the preceding year despite the continued decline in the demand for certain major products. Although the spread between the price ceiling and production cost of nearly all products became still narrower, the larger volume of output resulted in a slight improvement in the income for the year. The increase of 16 cents per share in net earnings to \$6.04 per common share is a reversal of the wartime trend, but the outlook will remain unpredictable as long as factors arising out of the war economy continue to exert a major influence on the profit position.

OPERATING REVIEW

In order to show as clearly as possible the relationship between the major products of the Company and their main outlets, this review presents first a brief survey of general industrial conditions in the Dominion during 1944, followed by a commentary designed to show the effect of these conditions on the chief operating activities of the Company.

Throughout the year the demand for war supplies and essential materials was still the determining factor in the productive efforts of the nation, but wide fluctuations were experienced in the requirements of specific products. There was a further expansion in agricultural production and the food processing industries operated at a high level. Gold mining activity, however, reached the lowest point in the past fourteen years, and the output of most other metals was slightly below the high volume of the preceding year. Production in some branches of the pulp and paper industry was maintained at a very high rate but operations in newsprint mills were still below capacity. The demand for all civilian consumer goods continued well in excess of supply, and production was largely dictated by the extent and allocation of the resources that were available after essential industrial needs had been met.

Sales to the government for direct war purposes

Production by Canadian Industries Limited for direct war purposes, as represented by sales to the Department of Munitions and Supply and Defence Industries Limited, declined during 1944 and accounted for only 10% of total business as compared with 15% in the preceding year. More than one-third of these sales consisted of the output of nylon yarn which

as before was delivered entirely to the government for use chiefly in the manufacture of man-bearing parachutes. Orders for army raincoat material were practically completed early in the year, and sales of coated fabrics for war purposes therefore decreased from 1943. Mainly by utilizing existing equipment designed for commercial production, a comparatively small quantity of special military type small arms ammunition was again supplied. Shipments of anti-tank grenades and sodium azide were lower in volume. The consumption of chlorine in the government-owned hexachlorethane plants operated by Defence Industries Limited remained at a high level until the closing months of the year, at which time schedules for manufacture of this smoke-screen chemical were reduced.

Chemical products for agriculture and for the food processing and packing industries

Fertilizer sales continued to increase as a result of the nation's intensified agricultural programme and additional facilities erected by the Company for the manufacture of superphosphate were put into operation during 1944. The achievement of a substantial increase in output was facilitated by the availability of larger supplies of some basic raw materials. Demand for agricultural insecticides and fungicides was also higher than in 1943. The adoption of improved standards of livestock feeding is gradually broadening the farm market for salt and advances were also recorded in sales for household, industrial and ice-control purposes. The expansion in the food processing and packing industry to meet heavier domestic and export requirements brought about a large increase in consumption of salt and other chemicals used for curing and preserving a wide variety of produce. Many food packaging problems have been solved by the use of "Cellophane" cellulose film and the expanded output needed to meet this demand, as well as the quantities used by the tobacco industry and to provide protective coverings for many types of equipment for the armed forces, became possible because raw materials were easier to obtain.

Chemical products for the mining and metal processing industries, etc.

Requirements for base metal extraction dropped slightly below those of 1943 and the decline in metal refining and processing affected sales of acids, sodium cyanide and other heavy chemicals. A decrease in demand for caustic soda was brought about by sharply reduced aluminum production in the latter half of the year. The continued downward trend in gold mining operations was reflected in reduced sales of dynamite and detonators for blasting purposes, and commercial explosives business was further diminished by the virtual completion of construction work on such major wartime projects as highways, air bases and power developments.

Some important industrial outlets draw upon the chemical industry for a wide range of products.

The pulp and paper industry consumes caustic soda, chlorine, sodium sulphate and various other chemicals and in 1944 total sales were slightly higher because of additional requirements for container board and kraft paper manufacture. The varied chemical needs of the textile industry reached a higher total than in 1943 and, in particular, the demand for

dyes and intermediates was more adequately met as larger supplies became available. Sales of chemicals to manufacturers of soaps and cleaning compounds showed a moderate advance. A much increased demand for rubber chemicals and carbon black resulted from the enlarged production of synthetic rubber and the development of compounding.

Output of sulphuric acid was maintained at about the same volume as in 1943, but deliveries for the production of military explosives and the fabricating of metals declined early in 1944. During the latter part of the year, however, output of sulphuric acid again rose to peak levels as manufacture of certain types of munitions was expanded. Production of chlorohydrocarbons for metal degreasing in war and other industries was similarly affected.

Certain products of the Company meet a diversity of industrial needs and some reach the public in the form of consumer goods.

Paint, lacquer and varnish production, aided by some improvement in the supply of major ingredients, maintained a large volume. The downward trend in the demand from the automotive industry for finishes for military vehicles and other equipment was more than offset by the increase in sales for general industrial purposes and for retail distribution.

Following the completion of government orders it was possible to divert production of coated fabrics to the manufacturers of civilian requirements, but sales were limited by the shortage of cotton goods. Modification of restrictions on the use of synthetic rubber assisted product development and brought idle facilities back into operation.

Sales of products manufactured from plastic materials were higher in 1944 although sales of nylon monofilament (synthetic bristle) were affected by the smaller demand for brushes for industrial and military use. A further reduction was made in the selling price of nylon monofilament. Heavy plastic sheeting supplies to safety glass manufacturers were increased but sales to the aircraft and automotive industries were lower. Sales of X-ray film and moulding powders recorded further advances.

As a result of the partial removal of the restrictions on the manufacture of commercial ammunition, increased quantities were made available for purchasers whose needs were classified as essential as well as a limited allotment for sporting purposes. Production efficiency of commercial ammunition showed steady improvement despite the handicap of impaired equipment and organization brought about by supplying general plant and other services to Defence Industries Limited and the dislocations consequent upon the termination of such services. Sales of railway fuses, track signals and flares were lower than in 1943 but remained at a comparatively high level as a result of heavy wartime railway traffic.

Production and product development

One of the more noteworthy features of wartime production experience has been the prolonged operation of plants at levels well beyond designed capacities. The first-class condition of the Company's plants at the outbreak of war has served to minimize the frequency of breakdowns and, despite the pressure of wartime demand on the organization and the

difficulty of obtaining new equipment, some improvements in operating efficiency have been achieved. Labour shortages and the replacement of skilled operatives by untrained workers have at times affected output schedules, but solutions have been found for many of the production problems of the early war years.

Process improvements that promise lower costs or increased capacity have again been devised by the technical staff and considerable progress has been made on the modifications necessary to meet changes in the character of demand. Opportunities are being examined for product improvements and for the production of chemicals and related products not previously manufactured by the Company. Some substitute materials adopted in wartime have revealed advantageous properties and their permanent utilization is contemplated. The services of the technical staff have been at the disposal of government departments and assistance has been rendered in connection with numerous problems that occurred in wartime production, packaging and distribution of supplies.

THE COMPANY'S ROLE IN WAR AND PEACE

It is impossible to give shareholders an adequate conception of the progress of the Company by limiting the annual report to the operations of a single year. Yesterday's efforts frequently determine the scope of tomorrow's achievements. Successful execution of long-term plans demands that in the formulation of policies and practices the Company must very often subordinate short-term performance and considerations to more lasting objectives. The results of the policies followed by the Company in peace and in war are evident from the indices presented in the following table:

INDICES SHOWING FIFTEEN YEARS OF GROWTH
1929 = 100

Year	Value of Sales	Number of Employees	Salaries and Wages	Taxes on Income	Net Income
1929	100	100	100	100	100
1939	180	165	159	297	130
1944	298	230	301	588	96

The Years 1929-1939

The continued growth of the Company must be attributed to its having always been guided by the principle that the only enduring source of profit is reasonable compensation for risks assumed in making capital outlays to provide productive resources and to ensure their efficient utilization. From 1929 to 1939, not only was the investment in plants

greatly expanded, but markets were broadened and new products developed. The ability to carry out such a programme depended in turn on the promotion and full utilization of technological progress. Finally the expansion in physical assets had to be paralleled by the creation of an organization with personnel capable of performing the diverse and complex tasks which confront modern industry.

The War Years

The war added new responsibilities and obligations. The goals set for the nation as a whole were made the objectives of internal Company policy. Every other consideration was subordinated to the task of obtaining the maximum output of essential materials in the shortest possible time. This involved the redirection of the plant expansion programme, changes in the character of output, the diversion of products to new outlets and the transfer of personnel in order that their services might be utilized in the war work undertaken on such an unprecedented scale by Defence Industries Limited.

Postwar Policies

Although the material needs of a nation at war continue to exact the utmost in productive effort, industry must give some attention to the early peace years if it is to carry out expeditiously the new responsibilities that will arise at that time. Final plans cannot be drawn up at this stage as the Company's blueprints of action must be of a kind that can be co-ordinated with the postwar economic framework which is just beginning to take shape. It is nevertheless possible to outline certain broad policy objectives which, although they do not differ essentially from those followed in pre-war years, do perhaps throw some additional light on postwar prospects.

The basic consideration in all policy formulation is that the material well-being of a nation and of the production units within its boundaries are interdependent, and that lasting progress for the one is possible only as the other prospers.

The first task of industry is to increase the productivity of the nation by obtaining the highest degree of efficiency in production, distribution and administration. This embraces not only economy in the utilization of resources but also the development and adoption of new or improved products, more efficient processes and superior managerial techniques.

Every manufacturing company is in some respects an arbiter in the distribution of a share of the national income and should strive to achieve the delicate balance between prices and wages that will give equally fair treatment to consumers, employees and shareholders. It is the policy of Canadian Industries Limited to share with consumers economics resulting from greater efficiency and to establish selling prices at levels which bring about an increasing volume of production. Employees in turn should be compensated in accordance with their contribution to the finished product. Finally, in the long run, dividends should be sufficient to compensate for the risk involved by providing a reasonable return on investment.

The Company's Resources

The assets possessed by Canadian Industries Limited have an important bearing on its ability to achieve these policy objectives. The Company has a large investment in 28 plants for the manufacture of a diverse range of commercial chemicals and related products. There will of course be extensive changes in the postwar period and already the planned expansions in the facilities for the manufacture of nylon and "Cellophane" are past the blueprint stage. Yet to limit the horizon to present undertakings is to fall behind in the race of scientific progress. Experience has demonstrated that the new process, the new or improved product or the change in consumer requirements can strike at existing values with dramatic suddenness. Advances in scientific knowledge have not only enabled the chemical industry to offer products that rival or even excel natural materials, but have presented other industries with the opportunity of widening their scope to the point of entering the chemical and other new fields. If the fullest use is not made of the progressive increase in technological discoveries and advances, the slow but relentless encroachment of obsolescence will undermine the ability of even the strongest to survive.

Although the Company's investment in its organization does not lend itself to balance sheet presentation, the abilities of its personnel should be described as one of its principal assets. The accumulated technical knowledge and operating skill acquired during the years of peace made it possible to discharge the new responsibilities that arose out of the war. Of equal importance was the existence of managerial abilities which proved capable of marshalling all the diverse elements coming within the industrial framework into a co-ordinated productive effort. There can be no doubt that the major contribution by this Company to Defence Industries Limited was the managerial and technical personnel with the required qualifications and attributes which formed the nucleus of that organization. The remarkable accomplishments of this wartime subsidiary augur well for the time when the undivided energies of the parent company can once more be directed to commercial activities.

In the chemical industry the efforts of the organization must be supported by a progressive increase in scientific knowledge. Probably no single factor has done more to promote the development of Canadian Industries Limited than the wealth of technical information which it has been able to secure as a result of its association with Imperial Chemical Industries Limited and E. I. du Pont de Nemours and Company. New products and process developments which originated in the laboratories of the associated companies, sometimes after early failures and frequently after years of expensive research and experimentation, have been made available to Canadian Industries Limited without cost under agreements of long standing. Nylon is a recent example of the benefits derived from such agreements, but equally important is the constant interchange of technological knowledge and 'know-how' on the multitudinous problems that arise. The availability of such sources of information enabled the Company, particularly during its development stage, to concentrate its research activities on the product and process modifications necessary

to adapt scientific principles to the unique features of the Canadian market. The stage of industrial development now being reached in Canada justifies the undertaking of more extensive research and an expanded programme is being planned by the Company for the postwar period.

DEFENCE INDUSTRIES LIMITED

The accomplishments of this wholly-owned wartime subsidiary, from its inception in September 1939 to the attainment of maximum production of munitions in 1943, have been described in previous annual reports in so far as security permitted. Some informative items from the records of earlier years are presented in the following condensed statement.

- 1939—Two small TNT and cordite plants taken over from C-I-L and expanded. Technical staff transferred from C-I-L. Number employed at year-end 110.
- 1940—Requested by government to design and construct large-scale munition plants. Began management and operation of government-owned plants as completed. Employment increased to 4,000.
- 1941—Programme of munitions production and plant construction greatly expanded. Employment reached 24,000.
- 1942—Ten large-scale plants and three smaller units, all government-owned, in operation under D.I.L. management. Employment—31,500.
- 1943—Production of explosives, chemicals, small arms ammunition and shell filling plants reached highest level. Employment peak—32,300.

Total production in 1944 at government-owned plants operated by Defence Industries Limited was below the previous year as a result of major changes in character and volume of military requirements. These changes created many problems in administration and plant operation, but the flexibility obtained by the segregation of the activities of Defence Industries Limited from the normal commercial business of Canadian Industries Limited greatly assisted in expediting the required adjustments. Among the more important developments during 1944 were the re-opening of the large explosives plant at Nobel which had been closed earlier in the year; the closing of two small arms ammunition plants and a central tool works which served them; the commencement of the conversion of a third small arms ammunition plant to produce .30 calibre ammunition for the U.S.A. Government on a very large scale; and, at the request of the Department of Munitions and Supply, the taking over of the management of the Cherrier shell filling plant.

At the end of the year, the company was operating on behalf of the government three plants for the manufacture of high explosives and

propellents; three shell filling plants and one fuse assembly plant; one small arms ammunition plant; two chemical plants and a small plant producing fuse powders. All of these plants are owned by the Crown, the total capital cost being in excess of \$100,000,000. Value of production from the commencement of operations to the end of 1944 was about \$766,000,000 and employment at the year-end was 28,000. The entire business of the company now consists of the operation of government-owned plants as agent for the Crown on a management fee basis, contracts for the supply of materials from small plants owned by the company having been completed.

The efforts of employees in meeting production schedules under difficulties and in maintaining quality, again deserve high praise, as also do their wholehearted participation in the Sixth and Seventh Victory Loans, to which a record total of \$6,334,000 was subscribed, and their support of Red Cross Blood Donor Clinics. A further decrease in time lost through accidents was recorded in 1944 and the careful attention to safety regulations and their close observance by employees resulted in a safety record which compared favourably to that of commercial industry generally.

Defence Industries Limited is compensated for its services in operating government-owned plants as agent for the Crown largely by means of fixed sums per unit of output. The rates have been lowered where economies have been effected in production costs or where output has exceeded designed capacity. Since the commencement, the gross amount of management fees received by the company is equivalent to four-fifths of one per cent of the value of the plants constructed and the products delivered under the construction and operating contracts. After deducting administrative expenses and estimated taxes (but not the estimated portion of taxes refundable after the war), the net income from management fees represents less than one-fifth of one per cent of all the costs incurred.

In 1944 management fees constituted virtually the entire source of income for Defence Industries Limited, and the net income for the year showed a decrease of seven per cent from 1943. The company's standard profit under the Excess Profits Tax Act has not yet been established, and declaration of dividends was suspended during the year pending clarification of the tax liability for the past five years. Dividends paid therefore totalled only \$25,000 as compared with dividends totalling \$382,000 in 1943.

SUBSIDIARY AND MANAGED COMPANIES

Subsidiary Companies

Operations of Defence Industries Limited are reviewed above and the table on page 11 gives a brief summary of the activities of the other subsidiaries. Changes in the character of war demand caused reductions in sales of some companies, but new business and an easing of the supply position of some imported resale products enabled others to show an increase in sales over 1943. Profits of the various companies also showed diverse trends in comparison with the preceding year.

The assets of Neepawa Salt Limited, a wholly-owned subsidiary, were acquired by Canadian Industries Limited during the year as it became

SUBSIDIARY COMPANIES

COMPANY	PRODUCTS AND OUTLETS	THE YEAR IN BRIEF
Aluminate Chemicals Limited	Sodium aluminate and chemical compounds for treatment of water for boilers, locomotives and general industrial purposes.	Sales volume increased considerably as a result of greater use of products in wider markets.
Canadian Hanson and Van Winkle Company Limited	Metal-plating supplies and equipment; degreasing solvents and machines; industrial brushes and buffs.	Distribution of many products is still restricted, but the expansion which followed the easing of some controls was almost sufficient to offset the decline in sales to war industries. New products were developed and introduced.
Canadian Safety Fuse Company Limited	Fuse and blasting accessories for mining and other essential industries. Special military supplies.	Commercial business continued to decline and production for war purposes was slightly lower than in the previous year.
Canadian Titanium Pigments Limited	Titanium pigments sold largely to paint manufacturers.	Improvement in the supply position resulted in a marked increase in sales.
Defence Industries Limited	Munitions production.	See page 9.
Gardinol of Canada Limited	Sulfonated alcohols used as detergents in the textile and other industries.	Availability of substitute materials brought about a recovery in sales.
McArthur Chemical Co., Limited	Wholesalers of a diversified line of chemicals as well as waxes, laundry and dry cleaning supplies, tanning extracts and other products.	Sales were slightly higher than in the previous year. Some restrictions were removed but many products were still scarce.

evident that economies and increased efficiency could be effected by operating the enlarged Neepawa, Manitoba, plant as a unit of the Salt Division.

The amount invested by Canadian Industries Limited in shares and bonds of the subsidiary companies represents less than 5% of its total assets.

Other Managed Companies

Sales of carbon bisulphide by Cornwall Chemicals Limited, an associated company, again increased sharply and included export deliveries to the United States to meet acute shortages in that country. Operating efficiency has made steady progress since production began in 1942 and profits for 1944 recorded a moderate advance.

Progressive increases in available supplies of synthetic rubber during 1944 enabled Dunlop Tire and Rubber Goods Company Limited, in which Canadian Industries Limited has a minority interest, to show a slight improvement over 1943 in sales. Manufacturing difficulties experienced with the new material, the properties of which differ radically from crude rubber, and the higher price of synthetic rubber caused a drop in operating profits, and net income was also lower. Nevertheless, at the instance of the Foreign Exchange Control Board and as a result of the national policy of increasing the United Kingdom's supply of Canadian dollar exchange the dividend on the common shares was increased to \$1.25 per share, as compared with the rate of 50 cents per share paid annually since 1938.

EMPLOYEE RELATIONS

Employment

Employees of Canadian Industries Limited (excluding Defence Industries Limited and other subsidiary companies) numbered approximately 6,000 at 31st December as compared with 6,400 at the end of 1943. There was a gain of 40% in the number employed by the Company at the end of 1944 as compared with 1939.

Arising from the unsettled conditions of the war period a fairly high rate of turnover among newer employees has been experienced by the Company but the numerous long-service employees have not been affected to the same degree and have continued to provide a source of stability and strength to the organization. At the end of 1944, employees who had completed ten or more years of service numbered 1,547 and of these 101 were credited with service of thirty years or more.

Medical Services

As an extension of the practice of requiring new employees to be medically examined, all employees are being encouraged to take advantage of the opportunity provided for annual medical examination. Arrangements have been completed which make it possible for employees to receive an annual examination including chest X-ray at the Company's expense and marked value from this preventive medical service has already been shown.

Employee Representation

In certain important aspects of their relationship with the Company the majority of the hourly paid employees are represented by Works Councils, and the remainder for the most part by Unions. A few are without a formal plan of employee representation because they are at smaller works of the Company. Fundamentally, a system of employee representation is a means of reaching agreement through discussion and the success of its operation depends upon the sincerity of purpose and the responsibility of the parties concerned, the willingness to consider and the ability to understand each other's point of view. In this regard management pays tribute to the contribution made by employee representatives in developing over many years a relationship which has greatly aided the Company's personnel to render effective service throughout the war period.

Accident Prevention

The low rate of accident frequency among employees again bore witness to the careful attention and joint efforts of the management and employees in the continued endeavour to control occupational hazards and in the further development of accident prevention as an essential part of efficient operating procedure. With the exception of the previous year's record experience, the frequency and severity rates of injuries suffered in 1944 were less than in any other war year. It is recorded with regret that the injuries sustained by one of the senior staff at the Brownsburg Plastics Works proved fatal.

Industrial Relations Plans

On page 14 there is presented in table form a summary of the plans with personal security features which are an important part of the industrial relations policy of the Company. Family hospitalization insurance for employees who were participating in the Co-operative Health Insurance Plan and who desired the additional coverage came into force on 1st March 1944. The Vacation Plan for Payroll Employees which has hitherto been contingent upon ratification in its entirety from year to year was amended at the end of 1944. In future the Plan will be continuous and eligible employees will be granted annually a vacation of one week with pay, only the second week of vacation being subject to annual authorization.

Employees on National Service

Payment of supplementary grants in accordance with the terms of the Company's national service policy was continued to men, employed by the Company before the war, who are now serving in the armed forces.

Preparations are being made for the return to employment with the Company of employees at present in the armed forces and individual reinstatement of such employees is being studied. Particular attention will be given to any specialized training or experience received while in the armed forces and to the changed circumstances in which civilian life will be resumed.

The list of employees serving in the armed forces has grown still longer and many have won official recognition for valour and service. A few

CANADIAN INDUSTRIES LIMITED

INDUSTRIAL RELATIONS PLANS WITH PERSONAL SECURITY FEATURES

Name of Plan	SAVINGS	VACATIONS	ILLNESS OR INJURY	HOSPITALIZATION	RETIREMENT	DEATH
Purpose of Plan	Co-operative Savings Plan. A yearly plan first introduced in 1935. To encourage regular saving. Since 1940 the major portion of employees' savings under the Plan has been invested in war savings certificates.	Vacation Plan. Original plan introduced in 1935. To provide an annual vacation with pay of two weeks, the second week being subject to annual authorization.	Disability Wage Plan. Original plan introduced in 1937. To provide against total loss of earnings during periods of disability resulting from illness or accident. Maximum payment equivalent to thirteen weeks' full wages following first week of absence.	Co-operative Health Insurance Plan.* Original plan introduced in 1935. To provide against extraordinary hospital, surgical and certain other medical expenses arising from non-occupational disabilities.	Pension Plan. Original plan introduced in 1919. To provide monthly payments to employees substantially incapable of continuing to perform normal duties. (Non-contractual).	Employees' Benefit Plan. Original plan introduced in 1920. To provide on the death of an employee or pensioner a benefit ranging from \$1,000 after six months' service to \$1,500 after five years.
Employees Eligible to Participate	Employees having one year's service on 1st January of the current year and earning not more than \$250 a month.	Payroll employees on completion of one year's service and annually thereafter.	Payroll employees having one year's service, excluding a limited number of wartime employees because of certain disabilities.	Employees having six months' service, excluding a limited number of wartime employees because of certain disabilities.	Pre-war employees having 15 years' service.	Pre-war employees (including those on national service) and pensioners.
Company's Direct Contribution	Company contributes in war savings certificates 25 cents on each dollar of employees' savings invested in war savings certificates at end of Plan.	Total cost borne by Company.	Total cost borne by Company.	Premiums paid jointly by Company and participating employees.	Total cost borne by Company.	

*Family Hospitalization Insurance added in 1944 as supplement to Co-operative Health Insurance Plan. Premiums paid by insured employees.

have already returned but some have been reported wounded or missing and others have died on active service. To their relatives and friends, on behalf of the entire personnel, the shareholders and the directors, the Board avails itself of this further opportunity to convey sincere sympathy.

War Savings

Despite the decrease in the number employed by the Company during 1944, subscriptions to the Sixth and Seventh Victory Loans increased slightly to \$1,316,000 indicating a higher average participation by employees. Purchases of war savings certificates through the Co-operative War Savings Plan and the voluntary war savings deduction scheme reached a new annual record of \$483,000.

Bonus Plan

Employees who contribute to an unusual extent to efficient operation and who display initiative in assisting to formulate or carry out Company policies, obtain special recognition of their services through the operation of the Bonus Plan which was first adopted by the Board of Directors in 1923. An amount determined by the Board of Directors, but not more than 15% of the earnings of the Company in excess of 6% on the capital stock and earned and capital surplus, may be set aside each year to provide for awards to individual employees on the basis of their achievements; the income from and the investment in General Motors Corporation are not included in the calculation. The Bonus Committee is appointed annually and is composed of directors who are not salaried officers or employees of the Company and who do not participate in the awards. This Committee decides individual awards on the basis of information obtained from senior executives in respect to employees under their jurisdiction.

The operation of the Plan continued to be subject to the restrictions imposed by the Wartime Salaries Order, and the fund available in 1944, while practically unchanged from the previous year, was considerably lower than the amounts available in each of the four years in the 1936-1939 period. Awards for the year 1944 were made to 197 employees including the President and the First Vice-President who are also directors of the Company. The awards are deliverable in four equal annual instalments, and the first instalment will be payable in cash. Before each remaining annual instalment becomes due, consideration will be given to the practicability of reverting to the policy of making deliveries in shares of the non-voting common stock of the Company.

Organization

At the close of business on 31st December, 1944, the Salt Division ceased to be a part of the Chemical Group and in conjunction with the Fertilizer Division became part of a new industrial group to be known as the Fertilizer and Salt Group. This step was taken because of the joint interests of the Fertilizer Division and the Salt Division in agriculture and farming which it is expected will become more pronounced in the postwar period.

Elsewhere in this report there are references to the great importance attached to the part of the employees in the successful operation of the Company, and it should be evident that the Company has endeavoured to express its recognition of the extent to which a high level of accomplishment depends upon sound employee relations. A very great increase in personnel has taken place over a period when employees with experience in supervisory functions, their number depleted by the calls of national service, have been preoccupied in meeting the demands of heavy working schedules. Under this handicap it has not always been possible to devote the needed time to training and educational activities and other matters affecting the organization generally, but this whole subject is receiving the attention of management as opportunity permits.

It is fully appreciated that the results achieved collectively by the personnel are none the less the sum total of individual effort on the part of every man and woman in the Company's factories and offices. In war-time the discharge of duties at all levels in the organization calls for more than ordinary patience and understanding and frequently entails unavoidable personal inconvenience. The acceptance of these conditions becomes part of the share of each individual in the national war effort, and the directors feel this report would be incomplete without reference to the willingness displayed by employees to apply their ability in full measure to the furtherance of the Company's endeavour to carry out its wartime obligations and responsibilities.

FINANCIAL REVIEW

Following the outbreak of war, earnings of the Company declined steadily for four consecutive years in spite of progressive increases in the volume of business and in the investment in manufacturing facilities. This trend was reversed in 1944 and earnings at \$6.04 per common share showed a limited increase over the earnings of \$5.88 per share in the previous year. The financial results for 1939 and the war years are compared with the growth in the volume of business in the following table.

COMPARISON OF SALES AND EARNINGS
1939-1944

Year	Percentage Increase in Sales Over 1939	Earnings Per Common Share Including Investment Income
1939	—	\$8.52
1940	20%	7.27
1941	50%	7.22
1942	53%	6.12
1943	60%	5.88
1944	67%	6.04

It is significant that during the war years earnings on the common shares have declined 29%, in spite of the growth of 67% in sales.

The wartime reduction in the Company's earnings is attributable to rising material prices, higher wage rates, and the depletion of the skilled

working force, all of which combined to bring about a reversal in the pre-war downward trend in the costs of production in spite of a concerted drive for economies. At the same time selling prices have not been adjusted to allow for rising costs. Higher wartime rates of taxes, which have absorbed a larger share of the reduced income, are a major factor in the sharp decline in net earnings from the 1939 level.

Under present conditions it is more than ever necessary to rely on judgment in evaluating the financial results from operations for the year. While direct war contracts do not form an important part of the total business of Canadian Industries Limited, final selling prices have not yet been established for all goods shipped for war purposes. To ensure maximum production of essential materials it became necessary to postpone various plans for expanding pre-war plants, to change the distribution of many products, and in particular to concentrate managerial talent on the work undertaken by Defence Industries Limited. Steps such as these will inevitably affect costs adversely at some later date, and furthermore, although every effort has been made to interpret the complex legislation and regulations, tax provisions must be considered as estimates until confirmed by the Department of National Revenue. However, after giving careful regard to the possible losses which may result from the decisions taken to ensure maximum production of essential materials, it is considered that the war contingency reserve totalling \$1,150,000 is reasonable and no addition was made to the reserve in 1944.

Income from Operations

In spite of the further advance in sales, there was only a minor improvement in the income from operations. After the prolonged declining trend, profit margins on some products showed evidence of becoming steadier, but equipment breakdowns and higher repair charges, the inevitable result of operating conditions for the past five years, adversely affected production costs. During the emergency, industry is being called upon to make sales to the government at prices which would not prove economically possible over a more extended period.

Raw material prices generally became more stable during 1944 and for the first time since the outbreak of war, prices of some major ingredients showed declines. An easing of the supply position of some materials previously difficult to obtain made possible a slightly higher output of certain products for which civilian demand has greatly exceeded the quantities available. Manufacturing costs of civilian goods have increased very sharply since 1939, but a compensating advance in total output of nearly all products has mitigated the effect on profits of higher costs. The entire structure of costs and profits is, however, vulnerable to any important decrease in the total volume of production.

Income from Investments

Total income from investments declined for the third consecutive year as the higher dividends received from holdings of General Motors Corporation stock and the increased interest received from greater balances invested in government bonds were insufficient to offset the virtual

elimination of dividends from Defence Industries Limited for the reason mentioned on page 10. The total amount received from other subsidiary and managed companies was higher in 1944 partly owing to the larger dividends declared on the common stock of Dunlop Tire and Rubber Goods Company Limited.

Following the long-established policy, earnings of subsidiary companies have not been consolidated with those of Canadian Industries Limited and have been included in investment income only to the extent of dividends declared. All subsidiaries earned profits in 1944, the total of such profits exceeding the sum of dividends declared in the year by \$493,000, in which amount Canadian Industries Limited has an equity of \$435,000.

Provision for Taxes

Taxable income was practically unchanged from the preceding year, and the total of \$3,133,000 provided for taxes out of 1944 profits was \$17,000 less than in 1943. No portion of 1944 taxes will be refundable after the war as profits were again below the level at which the 100% maximum tax rate applies. Income and excess profits taxes payable by subsidiary companies are estimated at \$1,373,000, a decrease of \$403,000 from 1943, although this amount is subject to revision as the standard profit of one company has yet to be established by the Board of Referees.

Net Income and Dividends

Net income at \$4,556,000 for the year under review was 2% higher than in 1943. Regular quarterly dividends on the preferred shares totalling \$7 per share were maintained. For the first time since the outbreak of war dividends on the common shares for the year did not undergo a further decline and the total of \$5.25 per share paid for the year was unchanged from 1943. Equal disbursements of \$1.25 per share each were made in April, July and October, and a final dividend of \$1.50 per share was paid in December. Undistributed earnings for 1944 totalled \$555,000 and the balance in earned surplus amounted to \$6,378,000 at the year-end.

Current Assets

There was a further improvement in the Company's liquid position during 1944 as cash requirements for additions to manufacturing facilities were below average, permitting funds to accumulate through the regular provisions for depreciation and other operating reserves. Inventory stocks were kept as low as possible consistent with operating requirements in order to minimize possible future losses resulting from any reduction in the delivered cost of materials.

Fixed Assets

The investment in plants, buildings, equipment and land at 31st December was \$1,360,000 higher than at the end of 1943, but wartime restrictions on construction and shortages of material again prevented any major extensions to facilities or erection of new units. The amount of \$2,025,000 authorized for new projects during the year was considerably higher than

last year and included part of the cost of major extensions proposed for the nylon and "Cellophane" plants, but progress on a large proportion of the work will depend on the supply of construction material and labour.

Repair and maintenance costs totalling \$2,322,000 were again sharply higher than in normal times largely owing to excessive wear and tear on machinery and equipment operated above designed capacity over prolonged periods. Operating costs were charged with \$2,460,000 for depreciation during the year, a decrease of \$329,000 from 1943.

THE FUTURE

Although this report has of necessity been devoted largely to past performance, the directors and management are acutely conscious that equally challenging tasks lie ahead. The lines of action open to an industrial company are of course closely circumscribed by forces beyond its control, but Canadian Industries Limited will continue to concentrate on the achievement of maximum productivity and product improvement. In making this objective the first consideration of policy the Company will not only promote its own development but will also fulfil its obligation to further the enduring material progress of the nation as a whole.

On behalf of the Board of Directors,

G. W. HUGGETT,

President and Managing Director.

16TH MARCH, 1945,
MONTREAL, CANADA.

AUDITOR'S REPORT TO THE SHAREHOLDERS

Canadian Industries Limited,
Montreal.

We have audited the books of account and financial records of Canadian Industries Limited for the year ended 31st December, 1944, and have obtained all the information and explanations we have required.

The inventories shown on the attached Balance Sheet have been determined and certified by the management of the Company.

In accordance with Section 114 of the Dominion Companies Act, we report that profits earned by subsidiary companies for the year 1944 have been included in the attached accounts only to the extent of the dividends declared and received or receivable by the Company.

We certify that, in our opinion, the attached Balance Sheet and relative Statements of Income and Surplus are properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December, 1944, and the result from operations for the year ended that date, according to the best of our information and the explanations given to us and as shown by the books of the Company.

P. S. ROSS & SONS,
Chartered Accountants.

Montreal, 16th February, 1945.

CANADIAN INDUSTRIES LIMITED

STATEMENT OF INCOME AND EARNED SURPLUS

For the Year Ended 31st December, 1944

Income from Operations after charging all expenses including depreciation.....		\$ 6,965,589
Income from Investments.....	\$ 715,608	
Profit on sale of Marketable Securities.....	<u>8,313</u>	<u>723,921</u>
		\$ 7,689,510
Reserve for income and excess profits taxes....		<u>3,133,500</u>
NET INCOME FOR THE YEAR		\$ 4,556,010

Dividends:

Preferred 7% Cumulative Stock.....	\$ 325,500	
Common Stock (\$5.25 per share).....	<u>3,675,740</u>	<u>4,001,240</u>
		\$ 554,770

Earned Surplus at 1st January, 1944.....	\$5,780,820	
Non-recurring profit in respect of prior years .	<u>42,771</u>	<u>5,823,591</u>
EARNED SURPLUS AT 31ST DECEMBER, 1944		<u>\$ 6,378,361</u>

Note: Included in the expenses charged against Income from Operations are the following items: depreciation \$2,460,267, remuneration of executive officers including bonus awards \$225,796, directors' fees \$20,000 and legal expenses \$559.

STATEMENT OF CAPITAL SURPLUS

For the Year Ended 31st December, 1944

Capital Surplus at 1st January, 1944.....	\$14,945,573
Net Loss on Realization of Assets in 1944....	<u>5,546</u>
Capital Surplus at 31st December, 1944.....	<u>\$14,940,027</u>

CANADIAN INDU

BALANCE SHEET A

ASSETS

CURRENT ASSETS

Cash	\$ 3,148,001	
Dominion and U.S. Government Securities	9,717,911	
(Market value \$9,717,660)		
Accounts Receivable, less reserve for doubtful accounts	5,075,535	
Customers	\$4,378,552	
Subsidiary Companies	375,314	
Other Accounts	<u>321,669</u>	
Inventories, valued at the lower of cost or market price, less reserve against future loss in inven- tory values	<u>9,586,268</u>	\$27,527,715
DEFERRED CHARGES TO OPERATIONS		163,410
PORTION OF 1942 TAXES REFUNDABLE AFTER THE WAR		60,700

FIXED ASSETS

Plants, Buildings and Equipment, based on the appraisals of the National Appraisal Com- pany, (1927 to 1929) adjusted by the Com- pany's own engineers, with subsequent addi- tions at cost	\$42,909,197	
Land, at cost	1,645,504	
Goodwill, Patents and Processes	<u>3,378,151</u>	47,932,852
Investments in Subsidiary Companies	\$ 3,043,996	
Shares in Other Companies (including market- able shares, book value \$2,500,000, market value \$8,662,500)	<u>3,787,785</u>	6,831,781
		<u>\$82,516,458</u>

Approved on behalf of the Board,

G. W. HUGGETT	} Directors.
C. C. BALLANTYNE	

STRIES LIMITED

31st DECEMBER, 1944

LIABILITIES

CURRENT LIABILITIES

Accounts Payable.....	\$ 4,349,068	
Subsidiary Companies.....	12,714	
Dominion and Municipal Taxes.....	1,773,823	
Dividends Declared.....	<u>81,375</u>	\$6,216,980

DEFERRED LIABILITIES		295,915
----------------------------	--	---------

RESERVES

Depreciation of Securities.....	\$ 1,200,000	
Depreciation of Plants, Buildings and Equipment.....	27,026,272	
Pension and Benefit Plans and Self Insurance... (In addition \$1,196,748 is held in an irrevocable Pension Trust Fund)	4,759,296	
War Contingencies.....	<u>1,150,000</u>	34,135,568

CAPITAL STOCK

Authorized	Shares	
Preferred 7% Cumulative Stock (par value \$100).....	75,000	
Common Stock (no par value)		
Class "A" Voting.....	660,000	
Class "B" Non-voting.....	<u>690,000</u>	
Issued and Fully Paid		
Preferred Stock.....	46,500	4,650,000
Common Stock		
Class "A".....	615,974	
Class "B".....	<u>84,167</u>	700,141 15,899,607

CAPITAL SURPLUS	<u>14,940,027</u>	35,489,634
-----------------------	-------------------	------------

EARNED SURPLUS (Including \$60,700 for the portion of 1942 taxes refundable after the war).....	<u>6,378,361</u>	
	<u>\$82,516,458</u>	

This is the Balance Sheet referred to in our attached report of even date.

P. S. ROSS & SONS, Chartered Accountants.

Montreal, 16th February, 1945.

CANADIAN INDUSTRIES LIMITED

CELLULOSE PRODUCTS GROUP

"Cellophane" Division

Plain transparent and moistureproof transparent "Cellophane" cellulose film.

"Fabrikoid" Division

"Fabrikoid", pyroxylin and synthetic resin coated fabrics; "PX" bookbinding, case coverings; "Washade" window shades, synthetic rubber products; "Alprox" quarter-linings, shoe buckram and other footwear materials.

Paint and Varnish Division

Finishes for every purpose in home and industry, including such trade-mark products as "Duco", "Dulux", "Pyralux", "Trutone" White and "Cilux" Enamel. A complete range of finishing materials for the automotive, railway, marine, aircraft, industrial, maintenance and retail trades.

Plastics Division

Combs; tooth-brushes; "Lucite" and other transparent and opaque plastic sheets, rods and tubes; moulding powders; "Plaskon" resin glue for plywood; X-ray film and chemicals; "Lucitone" denture material; nylon monofilament for brush bristles, etc.

CHEMICAL GROUP

Alkali Division

Caustic soda and other alkalis; chlorine; bleaching powder and other chlorine derivatives.

General Chemicals Division

Commercial and C.P. acids; ammonia and other refrigerant gases; zinc and ammonium chlorides; fluxes; sulphites and hyposulphite; silicates and numerous reagents and heavy chemicals.

Nylon Division

Nylon yarn for the textile industries.

Organic Chemicals Division

Dyestuffs; dry colours and pigments; intermediates; mining chemicals; neoprene, rubber colours and chemicals; solvents; ceramic materials and other organic chemicals.

EXPLOSIVES AND AMMUNITION GROUP

"Dominion" Ammunition Division

Small arms ammunition; loaded and empty shot shells and metallic cartridges embodying "Super-Clean" non-mercuric priming; railway fuses and track signals, explosive rivets, etc.

Explosives Division

Commercial explosives and blasting accessories.

FERTILIZER AND SALT GROUP

Fertilizer Division

Superphosphate; complete fertilizers; "Gardenite" plant food; insecticides; "Cel-O-Glass", "Sol-Min" and "Pig-Min" (mineral supplements); "Stable-Phos"; "Delsterol" (Vitamin "D"), etc.

Salt Division

All grades of "Windsor" salt for household, agricultural and industrial purposes.

NB—Chemicals and allied products are subject to wartime restrictions.

